

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight & Programs Branch**

**RESOLUTION T-17400
September 19, 2013**

R E S O L U T I O N

**Resolution T-17400. Approval of California High Cost Fund-A
Administrative Committee Fund Expense Budget for Fiscal Year 2014-15
(July 1, 2014 through June 30, 2015) to Comply with the Requirements of
Public Utilities Code Section 273 (a).**

Summary

This resolution adopts an expense budget of \$39.548 million for Fiscal Year (FY) 2014-15 for the California High Cost Fund-A (CHCF-A) program.

Background

Public Utilities (P.U.) Code § 275.6 requires the California Public Utilities Commission (Commission) to implement a program for universal service support to reduce rate disparity in rural areas. Accordingly, the Commission Decision (D.) 88-07-022 as modified by D.91-05-016 and D.91-09-042 implemented the California High Cost Fund (HCF) to provide a source of supplemental revenues to three mid-size and seventeen small Incumbent Local Exchange Carriers (ILECs), whose basic exchange access line service rates would otherwise need to be increased to levels that would threaten universal service goals.

D.96-10-066 changed the name of the California HCF to CHCF-A, otherwise known as the California High Cost Fund-A Administrative Committee Fund, and also created the California High Cost Fund-B (CHCF-B) program. The decision maintained the CHCF-A for the 17 small ILECs, and created the CHCF-B program, which included the three mid-size LECs, for the purpose of determining universal service support.

The CHCF-A was initially comprised of 17 small ILECs. D.08-10-010, authorized the consolidation of three small CHCF-A ILECs: Citizens Telecommunications Company of Tuolumne, Citizens Telecommunications Company of the Golden

State and Global Valley Networks, Inc., with the midsize CHCF-B ILEC, Citizens Telecommunications Company of California Inc., (now doing business as Frontier Communications of California). Additionally, D.13-05-028 authorized another consolidation of Frontier Communications West Coast Inc., into the larger ILEC, Citizens Telecommunications Company of California Inc. doing business as Frontier Communications of California. Accordingly, 13 small ILECs that are eligible for CHCF-A funding now provide service in rural areas of California.

CHCF-A is funded by a surcharge assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge. Prior to October 2001, a tax-exempt trust was established for the receipts and disbursements of CHCF-A funds. With the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677) codified in October 1999, and in compliance with PU Code § 270 et seq., the following events took place on October 1, 2001:

- the State Treasury created a CHCF-A Administrative Committee (AC) Fund for the receipts and disbursements of CHCF-A funds, and;
- the Commission created CHCF-A AC to advise the Commission regarding the development, implementation, and administration of the CHCF-A program.

PU Code § 270(b) requires that the monies in the CHCF-A and five other funds may only be expended pursuant to PU Code § 270-281 and upon appropriation in the annual Budget Act. Since FY 2001-2002, the CHCF-A Fund expenditures have been authorized in the state's Annual Budget Act.

Currently, the Commission has opened Rulemaking 11-11-007 to review the CHCF-A program and whether it needs to be modified to more efficiently and effectively meet the programs' stated goals. The Rulemaking may affect the future funding level of the small ILECs.

The CHCF-A program has a sunset date of January 1, 2015 (see P.U. Code Section 275.6(g)).

Notice/Protests

Notice of the CHCF-A AC Proposed Expense Budget was published in the Commission Daily Calendar on June 7, 2013. No parties submitted protests.

Discussion

Department of Finance (DOF) Audit

In 2012, auditors from the Department of Finance (DOF) conducted a budget process performance audit of six public purpose programs administered by the Communications Division (CD), including the CHCF-A. The DOF's audit report contained several recommendations and the Commission has followed those recommendations in the preparation of this budget resolution.

Administrative Committee (AC)

The CHCF-A AC charter charges the AC to advise the Commission regarding the development, implementation, and administration of the CHCF-A program and mandates the AC to meet at least quarterly.

Pursuant to PU Code Section 273(a) the CHCF-A AC shall submit a proposed budget including estimated program expenditures and the committee's projected expenses for the fiscal year commencing thirteen (13) months thereafter to the CD Director. On May 22, 2013, the CHCF-A AC held a public meeting to discuss the proposed FY 2014-15 expense budget. On June 6, 2013, the AC Chairperson submitted a proposed \$38.9 million FY 2014-15 CHCF-A AC budget to the CD Director.

Budget Development Process

CD estimates a FY 2014-15 budget of \$39.548 million, based on the following budget components: carrier payments ; cost of audits; cost of Program Claim Automation IT project; Administrative committee costs; Inter-Agency Fee and CPUC staff and administrative costs; and appropriations that will be established in the 2014 Budget Act for a portion of the State Operations in 0840 State Controller and 8880 Fiscal Information System for California (Fi\$CAL).

In addition to relying upon CD's forecast for the FY2014-15 budget, we examined the proposed FY 2014-15 budget by comparing budget and actual data from the two most current years completed for reasonableness (FYs 2011-12 and 2012-13), as shown in Table 1 and discussed below.

Additionally, Appendix A compares CD's forecasted FY 2014-15 expense budget versus the FY 2013-14 expense budget adopted by the Commission.

Table 1				
	Program Expenditures	FY 2011-12 Actual	FY 2012-13 Actual	FY 2014-15 Budget
	a.	b.	c.	d.
	Program Costs:			
1	Carrier Payments	\$ 33.536	\$ 33.274	\$ 37.838
2	Other Legislative Mandated Programs	\$ 0.012	\$ 0.009	\$ 0
3	Audits	\$ 0	\$ 0.018	\$ 0.745
4	Program Claim Automation	\$ 0.045	\$ 0.018	\$ 0.042
5	Other (awarded attorney fees and late interest)	\$ 0	\$ 0.071	\$ 0
6	Administrative Committee Costs	\$ 0.001	\$ 0	\$ 0.002
	PUC Staff and Admin Costs:			
7	Inter-Agency Fee	\$ 0.407	\$ 0.378	\$ 0.290
8	CPUC Staff and Administrative Costs	\$ 0.400	\$ 0.356	\$ 0.395
9	8660 Public Utilities Commission (State Operations)	\$ 34.401	\$ 34.124	\$ 39.312
10	0840 State Controller (State Operations)	\$ 0.006	\$ 0.008	\$ 0.008
11	8880 Financial Information System for California (State Operations)	\$ 0.133	\$ 0.266	\$ 0.228
12	Total Program Expenses	\$ 34.540	\$ 34.398	\$ 39.548

Carrier Payments (Table 1, line 1)

Carrier payments are based on respective carriers' funding estimates for FY 2014-15 and represent the biggest expenditure for the CHCF-A program. To qualify for and receive CHCF-A funding, the small ILECs are required to file an advice letter for a general rate case (GRC) review subject to CHCF-A waterfall provisions.

Carrier payments levels are impacted by the Implementation Rules from D.91-09-042, which established a phase-down of the CHCF-A funding level effective January 1 following the year after the completion of a small ILEC's GRC. According to these rules, CHCF-A funding levels for GRC ILECs associated with program claims are maintained at 100% of the total claim amount for the first three years after a GRC completion, with funding decreasing to 80% by the fourth year if no subsequent GRC application is filed, then reducing to 50% for the fifth year, and further reducing to 0% thereafter, until a subsequent GRC application is filed. This 6-year phase down of funding level is commonly known as the "waterfall".

Table 1 line 1(d) shows forecasted carrier payments for FY 2014-15, estimated at \$37.838 million, based on data submitted to CD in May 2013. By comparison, lines 1(c) (FY 2012-13 at \$33.274 million) and 1(b) (FY 2011-12 at \$33.536 million) are lower, as beginning with FY 2011-12, CHCF-A support decreased when waterfall provisions took effect, lowering Sierra's and Volcano's CHCF-A funding level to 80%.

By comparison, if Sierra's and Volcano's support remained at 100%, total FY 2012-13 and 2011-12 support, as represented by in lines 1(c) and 1(b) would have been \$36.760 and \$35.344 million, respectively. Comparing these fiscal years and assuming 100% support, the year-to year carrier payments increase differential would equal four percent between FY 2011-12 and FY 2012-13, and 3 percent the following fiscal year.

Audits (table 1, line 3)

Audit expenses are estimated at \$744,600 (line 3(d)) for FY 2014-15. This budget increase is intended to allow for a greater number of carrier audits of surcharge remittances in accordance with P.U. Code Section 274.

Program Claim Automation (Table 1, line 4)

The Administrative Services Division and CD allocated \$42,019 for FY 2014-15 line 4(d) for a new automated claims system developed for programs including the CHCF-A. This new program is intended to bring greater efficiency to universal service programs. Part of the evaluation process will be to determine if CHCF-A will be included in the automated claims system. This is compared to amounts in line 4(c) for FY 2012-13 and 4(b) for FY 2011-12 which only included Information Technology costs allocated to CHCF-A.

Administrative Committee Costs (Table 1, line 6)

The Administrative Committee Costs budget is forecasted to be \$2,000 and is based on expected actual expenditures for four scheduled CHCF-A AC committee meetings in FY 2014-15. This estimate is greater than the actuals in line 6 from past fiscal years during which only one meeting was held. To be consistent with the AC Committee charter, four committee meetings are assumed to be held in FY 2014-15.

Inter-Agency Fee (Table 1, line 7)

The Inter-agency fee budget for FY 2014-15 is \$290,000 and includes costs charged to the CHCF-A fund for services rendered by other State agencies. The estimate is provided by Administrative Services Division. Compared to prior years, the forecast has decreased by approximately \$100,000.

CPUC Staff and Administrative Costs (Table 1, line 8)

CPUC staff and administrative costs are \$395,186 for FY 2014-15, line 9(d). Compared to prior years, the amount is relatively unchanged.

0840 State Controller (State Operations) Costs (Table 1, line 10)

This item appropriates funds for the State Controller's Office and remains relatively unchanged from prior years at \$8,000 (line 10(d)) for FY 2014-15.

8880 Financial Information System for California (State Operations) (Table 1, line 11)

This item appropriates funds for the Financial Information System for California (Fi\$Cal). Fi\$Cal is an information technology (IT) project managed by a partnership of Department of Finance, the State Treasurer's Office, the State Controller's Office, and the Department of General Services. The purpose of this project is to create and implement a new statewide financial system. The budget For FY 2014-15 is \$228,000 (line 11(d)) as estimated in the Governor's proposed budget for FY 2013-14.

Total Program Expenses (Table 1, line 12)

Total forecasted expenses for FY 2014-15 are \$39.548 million. This indicates a notable increase compared to prior years, when Sierra and Volcano were subject to 80% funding under waterfall provisions. However, if Sierra and Volcano had received 100% funding during those previous two years, the total expenses on Table 1 line 12 would have been \$37.884 and \$36.348 FY 2012-13 line 12(c) and FY 2011-12 line 12(b), respectively. CD's proposed FY 2014-15 expense budget of \$39.548 million is therefore reasonable and should be adopted.

The adopted CHCF-A Budget of \$39.548 million assumes the program will operate throughout FY 2014-15. Should the program not be extended and sunset on January 1, 2015, as currently mandated, Commission staff will undertake efforts to adjust the FY 2014-15 program budget as necessary.

Final appropriations for 0840 State Controller (State Operations), 8660 Public Utilities Commission (State Operations) and 8880 Financial Information System for California (State Operations) will be determined when the Budget Act of 2014 is approved by the Legislature and the Governor. The FY 2014-15 budget adopted today is subject to final appropriations adopted in the Budget Act of 2014. To the extent that appropriations adopted in the Budget Act of 2014 differ from the FY 2014-15 Budget adopted in this resolution, the appropriations adopted in the Budget Act of 2014 will supersede the budget adopted in this resolution.

Safety Issues

The small ILECs are required to adhere to all Commission rules, decisions, General Orders and statutes including Public Utilities Code § 451 to take all actions "...necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CHCF-A subsidy provides carriers with the resources through which to provide reliable and affordable telephone service to its customers in rural, high cost areas.

Reliable service is crucial in these sometimes isolated areas, and program funding helps provide access for residents to dial 211 for essential community services, 311 for non-emergency municipal services, 511 for traffic and transportation information, 811 for public infrastructure underground location information, and 911 to reach police, fire

and medical responders when fire, natural disasters, medical emergencies, or other crises occur. This Resolution ensures that the CHCF-A program promotes universal service by subsidizing essential communications links in high cost, rural communities.

Comments

In compliance with PU Code § 311 (g), the Commission e-mailed notice letters on August 20, 2013, to the 13 small ILECs, the CHCF-A AC, and parties of record in R.01-08-002 and A.99-09-044, informing these parties that this draft resolution is available at the Commission's website <http://www.cpuc.ca.gov/> and is available for public comment. Additionally, CD informed these parties of the availability of the conformed resolution at the same website.

Findings

1. Public Utilities (PU) Code § 275.6 requires the California Public Utilities Commission (Commission) to implement a program for universal service support to reduce rate disparity in rural areas.
2. The authorizing legislation for the California High Cost Fund-A (CHCF-A) program, PU Code § 275.6 will sunset on January 1, 2015.
3. In October 1999, PU Codes § 270-281 were codified as a result of the enactment of Senate Bill 669.
4. PU Code § 270(b) requires that the monies in CHCF-A Administrative Committee (AC) Fund may only be disbursed pursuant to PU Code § 270-281 and upon appropriation in the annual Budget Act.
5. Rulemaking 11-11-007 will examine how the CHCF-A program can more efficiently and effectively meet its stated goals. The Rulemaking may affect the future funding level of the small ILECs.
6. The CHCF-A AC proposed expense budget was noticed in the Commission's Daily Calendar on June 7, 2013.
7. In 2012, the Department of Finance conducted a budget process performance audit of six public purpose programs administered by the Communications Division including the CHCF-A.
8. The CHCF-A AC submitted to the Director of CD, a proposed Fiscal Year (FY) 2014-15 expense budget for the CHCF-A AC Fund, totaling \$38.9 million.

9. Communications Division's proposed FY 2014-15 expense budget of \$39.548 million, composed of \$39.312 million for 8660 Public Utilities Commission (State Operations); \$0.008 million for 0840 State Controller (State Operations); and \$0.228 million for 8880 Financial Information System for California (State Operations) is reasonable and should be adopted.
10. Final appropriations for 0840 State Controller (State Operations), 8660 Public Utilities Commission (State Operations) and 8880 Financial Information System for California (State Operations) will be determined when the Budget Act of 2014 is approved by the Legislature and the Governor.
11. The FY 2014-15 budget adopted today is subject to final appropriations adopted in the Budget Act of 2014 for 8660 Public Utilities Commission (State Operations), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).
12. The appropriations adopted in the Budget Act of 2014, if different from the adopted FY 2014-15 budget, will supersede the FY 2014-15 Budget adopted in this resolution.

THEREFORE, IT IS ORDERED that:

1. The expense budget for the California High Cost Fund-A Administrative Committee Fund for Fiscal Year 2014-15, in the amount of \$39.548 million, composed of \$39.312 for 8660 Public Utilities Commission (State Operations), \$0.008 Million for 0840 State Controller (State Operations) and \$0.228 for 8880 Financial Information System for California (State Operations) is adopted.
2. Communications Division staff are authorized to modify the FY 2014-15 expense budget adopted today to conform to the final appropriations adopted in the Budget Act of 2014 for 8660 Public Utilities Commission (State Operations), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 19, 2013. The following Commissioners approved it:

PAUL CLANON
Executive Director

APPENDIX A

CALIFORNIA HIGH COST FUND-A ADMINISTRATIVE COMMITTEE FUND
PROGRAM BUDGET

Program Expenses	July 2013 to June 2014	July 2014 to June 2015
	Adopted per Res. T-17373 ¹	Proposed
a	b	c
Expenses		
Program Costs		
1 Carrier Payments ²	\$ 42,704,268	\$ 37,837,692
2 Audits ³	\$ 300,000	\$ 744,600
3 Program Claim Automation ⁴	\$ 8,500	\$ 42,019
4 Administrative Committee Costs ⁵	\$ 3,700	\$ 2,272
PUC Staff and Admin Costs		
5 Inter-Agency Fee ⁶	\$ 396,000	\$ 290,000
6 CPUC Staff and Administrative Costs ⁷	\$ 390,300	\$ 395,186
7 8660 Public Utilities Commission (State Operations)	\$ 43,802,768	\$ 39,311,769
8 0840 State Controller (State Operations) ⁸	\$ 0	\$ 8,000
9 8880 Financial Information System For California (State Operations) ⁹	\$ 228,000	\$ 228,000
10 Total Program Expenses	\$ 44,030,768	\$ 39,547,769

Notes

- 1 Resolution T-17373, was adopted on August 23, 2012, in the amount of \$43,802,768. Lines 8 and 9 has been added to show the appropriations in the Department of Financial Fund Condition Statement.
- 2 Carrier Payments for FY2014-15 are based on projections submitted by the small ILECs in May 2013.
- 3 Audit estimate provided by Utility Audit, Finance and Compliance Branch of Water and Audits Division.
- 4 Based on Administrative Services estimate for program claims automation system development costs.
- 5 Pursuant to D.02-04-059, per diem and other costs are authorized for committee member attendance in the CHCF-A AC meeting. It is assumed that there will be four meetings of the CHCF-A AC during FY 2014-15.
- 6 Based on estimate of pro-rata costs allocated to state service agencies, e.g. DGS, Department of Finance, etc.
- 7 Based on personnel staff allocation estimates and program priorities for the six public purpose programs, but only includes CHCF-A
- 8 Estimate of cost for services rendered by State Controller's Office.
- 9 Estimate for Fi\$CAL system development: an integrated system for budgeting, accounting, procurement, cash management, financial management, financial reporting, and additional features.